

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF PENSION COSTS CLAIMED
FOR MEDICARE REIMBURSEMENT BY
BLUE CROSS BLUE SHIELD OF
MINNESOTA**



**JANET REHNQUIST
INSPECTOR GENERAL**

**FEBRUARY 2003
A-07-02-03015**

Office of Inspector General

<http://oig.hhs.gov/>

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OAS FINDINGS AND OPINIONS

The designation of financial or management practices as questionable or a recommendation for the disallowance of costs incurred or claimed as well as other conclusions and recommendations in this report represent the findings and opinions of the HHS/OIG/OAS. Authorized officials of the awarding agency will make final determination on these matters.





Report Number: A-07-02-03015
February 21, 2003

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

Mr. Keith A. Lindstam
Principal Internal Auditor
Blue Cross Blue Shield of Minnesota
1303 Corporate Center Drive (Route T-106)
Eagan, MN 55121-1204

Dear Mr. Lindstam:

This report provides the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Minnesota*.

We determined that Blue Cross Blue Shield of Minnesota (Minnesota) should remit \$550,083 to the Federal Government for unallowable pension costs that were claimed for Medicare reimbursement. Minnesota agreed with our findings and recommendation. Minnesota's response is included as Appendix B.

EXECUTIVE SUMMARY

OBJECTIVE

The purpose of our review was to determine the allowability of pension costs claimed for Medicare reimbursement for Fiscal Years (FYs) 1987 through 1999.

FINDING

For FYs 1987 through 1999, we determined that Blue Cross Blue Shield of Minnesota (Minnesota) over claimed allowable Medicare pension costs. During this period, the allowable Medicare pension costs were \$7,108,225. However, Minnesota claimed pension costs of \$7,658,308 for Medicare reimbursement. As a result, Minnesota over claimed allowable pension costs by \$550,083. This over claim of pension costs was the result of Minnesota basing their pension cost calculations on incorrect asset values.

RECOMMENDATION

We are recommending that Minnesota remit \$550,083 to the Federal Government for unallowable pension costs that were claimed for Medicare reimbursement.

BACKGROUND

Blue Cross Blue Shield of Minnesota

Minnesota administered Medicare Parts A and B under cost reimbursement contracts until the Part B contractual relationship terminated in 1996, and the Part A contractual relationship terminated in 1999.

Regulations

Medicare contractors must follow cost reimbursement principles contained in the Federal Procurement Regulations (FPR), which were superseded by the Federal Acquisition Regulations (FAR), the Cost Accounting Standards (CAS), and the Medicare contracts.

Medicare reimburses its portion of contractors' annual pension costs. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability. The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

Additionally, the Centers for Medicare & Medicaid Services (CMS), formerly the Health Care Financing Administration, incorporated specific segmentation language into Medicare contracts. The contracts provide for either an allocation or a separate calculation of pension costs. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. Under the separate calculation method, a contractor separately identifies the normal costs and amortization for the Medicare segment. The separate calculation method must be used if there is a material difference between the two methods.

OBJECTIVES, SCOPE AND METHODOLOGY

Objective

The objective of our review was to determine the allowability of pension costs claimed for FYs 1987 through 1999.

Scope

This review was done in conjunction with our review of Minnesota's pension segmentation closing (Report Number: A-07-01-03001). The information obtained and reviewed during that audit was also used in performing this review.

We identified Minnesota's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Minnesota funded CAS pension costs with contributions to the pension trust fund. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for FYs 1987 through 1999. Appendix A contains the details on the pension costs and contributions. Achieving the objective did not require a review of Minnesota's internal control structure.

Methodology

We made our examination in accordance with generally accepted government auditing standards. The CMS Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Minnesota's historical practices. We performed site work at Minnesota's corporate offices in Eagan, Minnesota during May 2001. Subsequently, we performed audit work in the OIG, OAS, Jefferson City, Missouri Field Office.

FINDINGS IN DETAIL

For FYs 1987 through 1999, Minnesota over claimed \$550,083 in pension costs that are not allowable for Medicare reimbursement. The pension costs are unallowable because the costs claimed exceeded the funded portion of CAS computed costs. The over claim primarily occurred because Minnesota based its pension cost calculations on incorrect asset values (see segmentation audit report, Report Number: A-07-01-03001, for details).

CRITERIA

The determination and allocation of pension costs are addressed by the Medicare contract which states:

“The calculation of and accounting for pension costs charged to this agreement/contract are governed by the Federal Acquisition Regulation and Cost Accounting Standards 412 and 413.”

CONDITION

For FYs 1987 through 1999, Minnesota charged \$7,658,308 of pension costs to Medicare. However, the allowable CAS pension costs were \$7,108,225 for the same period. Therefore, Minnesota over claimed \$550,083 in pension costs.

CAUSE

The primary cause for the over claim was due to Minnesota basing its pension cost calculations on incorrect asset values (see segmentation audit report, Report Number: A-07-01-03001, for details).

We calculated the allowable CAS pension costs for the Medicare segment and for Medicare indirect operations. The calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs. See Appendix A for details.

We compared our calculated allowable CAS pension costs to the pension costs claimed on Minnesota's FACPs and found:

PENSION COST CLAIMED VARIANCE			
FISCAL YEAR	PER MINNESOTA	PER OIG	DIFFERENCE
1987	¹ \$307,987	\$319,118	(\$11,131)
1988	359,249	353,256	5,993
1989	445,587	422,062	23,525
1990	651,100	474,514	176,586
1991	650,457	576,136	74,321
1992	665,366	632,126	33,240
1993	814,750	796,443	18,307
1994	881,354	884,013	(2,659)
1995	892,358	879,985	12,373
1996	671,204	636,102	35,102
1997	507,064	534,738	(27,674)
1998	438,248	468,342	(30,094)
1999	373,584	131,390	242,194
	<u>\$7,658,308</u>	<u>\$7,108,225</u>	<u>\$550,083</u>

EFFECT

For FYs 1987 through 1999, Minnesota claimed pension costs of \$7,658,308 for Medicare reimbursement. However, the allowable CAS pension costs were \$7,108,225. As a result, Minnesota claimed \$550,083 in excess of the allowable CAS pension costs.

RECOMMENDATION

We recommend that Minnesota remit \$550,083 to the Federal Government, for unallowable pension costs that were claimed for Medicare reimbursement.

Auditee's Comments

Minnesota agreed with our findings in total. Minnesota's response is presented in its entirety at Appendix B.

¹ Because Minnesota was not able to provide support for its claim, we estimated the pension costs for FY 1987.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions taken on all matters reported will be made by the CMS action official identified below. We request that you respond to the recommendation in this report within 30 days from the date of this report to the CMS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, OIG, OAS reports are made available to the public to the extent information contained therein is not subject to the exemptions in the Act. (See 45 CFR Part 5). As such, within 10 business days after the report is issued, it will be posted on the worldwide web at <http://oig.hhs.gov/>.

Sincerely,



James P. Aasmundstad
Regional Inspector General
for Audit Services, Region VII

Enclosures

HHS Action Official:

Ms. Dorothy Burk Collins
Regional Administrator, Region V
Centers for Medicare and Medicaid Services
233 North Michigan Avenue, Suite 600
Chicago, Illinois 60601

MINNESOTA BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description		Total Company	Other Segments	Medicare Segment
1987	Contribution(s)	<u>1/</u>	\$3,197,028	\$2,858,132	\$338,896
8.50%	Discount for Interest	<u>2/</u>	(250,458)	(223,909)	(26,549)
1/1/87	Pres Val Contributions	<u>3/</u>	2,946,570	2,634,223	312,347
1/1/87	Prepayment Credit	<u>4/</u>	0	0	0
1/1/87	Pres Value of Funding	<u>5/</u>	2,946,570	2,634,223	312,347
1/1/87	CAS Pension Cost	<u>6/</u>	2,946,534	2,634,187	312,347
1/1/87	CAS Funding Target	<u>7/</u>	2,946,534	2,634,187	312,347
1/1/87	% Funded	<u>8/</u>		100.00%	100.00%
1/1/87	Funded Pension Cost	<u>9/</u>		2,634,187	312,347
	Allowable Interest	<u>10/</u>		158,600	18,806
	Allocable Pension Cost	<u>11/</u>		2,792,787	331,153
	Fiscal Year Pension	<u>12/</u>		2,094,590	248,365
	Medicare LOB%	<u>13/</u>		3.595%	98.169%
	Allowable Pension Cost	<u>14/</u>	<u>\$319,118</u>	<u>\$75,301</u>	<u>\$243,817</u>

1988	Contribution(s)		\$2,608,228	\$2,351,175	\$257,053
8.50%	Discount for Interest		(204,331)	(184,193)	(20,138)
1/1/88	Pres Val Contributions		2,403,897	2,166,982	236,915
1/1/88	Prepayment Credit		39	35	4
1/1/88	Pres Value of Funding		2,403,936	2,167,017	236,919
1/1/88	CAS Pension Cost		3,288,270	2,964,195	324,075
1/1/88	CAS Funding Target		3,288,270	2,964,195	324,075
1/1/88	% Funded			73.11%	73.11%
1/1/88	Funded Pension Cost			2,167,017	236,919
	Allowable Interest			130,470	14,264
	Allocable Pension Cost			2,297,487	251,183
	Fiscal Year Pension			2,421,312	271,176
	Medicare LOB%			3.595%	98.169%
	Allowable Pension Cost		<u>\$353,256</u>	<u>\$87,046</u>	<u>\$266,210</u>

MINNESOTA BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment
1989	Contribution(s)	\$3,234,952	\$2,911,022	\$323,930
8.50%	Discount for Interest	(235,715)	(212,112)	(23,603)
1/1/89	Pres Val Contributions	2,999,237	2,698,910	300,327
1/1/89	Prepayment Credit	0	0	0
1/1/89	Pres Value of Funding	2,999,237	2,698,910	300,327
1/1/89	CAS Pension Cost	3,710,821	3,339,239	371,582
1/1/89	CAS Funding Target	3,710,821	3,339,239	371,582
1/1/89	% Funded		80.82%	80.82%
1/1/89	Funded Pension Cost		2,698,910	300,327
	Allowable Interest		162,497	18,082
	Allocable Pension Cost		2,861,407	318,409
	Fiscal Year Pension		2,720,427	301,603
	Medicare LOB%		4.463%	99.684%
	Allowable Pension Cost	\$422,062	\$121,413	\$300,649
1990	Contribution(s)	\$5,452,227	\$4,956,727	\$495,500
8.50%	Discount for Interest	(383,907)	(349,017)	(34,890)
1/1/90	Pres Val Contributions	5,068,320	4,607,710	460,610
1/1/90	Prepayment Credit	0	0	0
1/1/90	Pres Value of Funding	5,068,320	4,607,710	460,610
1/1/90	CAS Pension Cost	4,607,163	4,146,553	460,610
1/1/90	CAS Funding Target	4,607,163	4,146,553	460,610
1/1/90	% Funded		100.00%	100.00%
1/1/90	Funded Pension Cost		4,146,553	460,610
	Allowable Interest		249,657	27,733
	Allocable Pension Cost		4,396,210	488,343
	Fiscal Year Pension		4,012,509	445,860
	Medicare LOB%		0.717%	99.974%
	Allowable Pension Cost	\$474,514	\$28,770	\$445,744

MINNESOTA BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment
1991	Contribution(s)	\$5,311,266	\$4,837,231	\$474,035
8.50%	Discount for Interest	(322,761)	(293,954)	(28,807)
1/1/91	Pres Val Contributions	4,988,505	4,543,277	445,228
1/1/91	Prepayment Credit	500,355	451,832	48,523
1/1/91	Pres Value of Funding	5,488,860	4,995,109	493,751
1/1/91	CAS Pension Cost	5,091,426	4,597,674	493,752
1/1/91	CAS Funding Target	5,091,426	4,597,674	493,752
1/1/91	% Funded		100.00%	100.00%
1/1/91	Funded Pension Cost		4,597,674	493,751
	Allowable Interest		249,614	26,806
	Allocable Pension Cost		4,847,288	520,557
	Fiscal Year Pension		4,734,519	512,504
	Medicare LOB%		1.344%	100.000%
	Allowable Pension Cost	\$576,136	\$63,632	\$512,504
1992	Contribution(s)	\$5,137,181	\$4,647,327	\$489,854
8.50%	Discount for Interest	(281,032)	(254,234)	(26,798)
1/1/92	Pres Val Contributions	4,856,149	4,393,093	463,056
1/1/92	Prepayment Credit	431,216	390,098	41,118
1/1/92	Pres Value of Funding	5,287,365	4,783,191	504,174
1/1/92	CAS Pension Cost	5,574,630	5,043,064	531,566
1/1/92	CAS Funding Target	5,574,630	5,043,064	531,566
1/1/92	% Funded		94.85%	94.85%
1/1/92	Funded Pension Cost		4,783,191	504,174
	Allowable Interest		254,234	26,798
	Allocable Pension Cost		5,037,425	530,972
	Fiscal Year Pension		4,989,891	528,368
	Medicare LOB%		2.109%	99.720%
	Allowable Pension Cost	\$632,126	\$105,237	\$526,889

MINNESOTA BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment
1993	Contribution(s)	\$6,532,909	\$5,841,342	\$691,567
8.50%	Discount for Interest	(368,902)	(329,850)	(39,052)
1/1/93	Pres Val Contributions	6,164,007	5,511,492	652,515
1/1/93	Prepayment Credit	0	0	0
1/1/93	Pres Value of Funding	6,164,007	5,511,492	652,515
1/1/93	CAS Pension Cost	6,483,385	5,797,061	686,324
1/1/93	CAS Funding Target	6,483,385	5,797,061	686,324
1/1/93	% Funded		95.07%	95.07%
1/1/93	Funded Pension Cost		5,511,492	652,515
	Allowable Interest		329,850	39,052
	Allocable Pension Cost		5,841,342	691,567
	Fiscal Year Pension		5,640,363	651,418
	Medicare LOB%		3.275%	93.906%
	Allowable Pension Cost	<u>\$796,443</u>	<u>\$184,722</u>	<u>\$611,721</u>
1994	Contribution(s)	\$10,255,016	\$9,465,258	\$789,758
7.50%	Discount for Interest	(548,262)	(506,039)	(42,223)
1/1/94	Pres Val Contributions	9,706,754	8,959,219	747,535
1/1/94	Prepayment Credit	0	0	0
1/1/94	Pres Value of Funding	9,706,754	8,959,219	747,535
1/1/94	CAS Pension Cost	9,388,364	8,640,829	747,535
1/1/94	CAS Funding Target	9,388,364	8,640,829	747,535
1/1/94	% Funded		100.00%	100.00%
1/1/94	Funded Pension Cost		8,640,829	747,535
	Allowable Interest		459,044	39,713
	Allocable Pension Cost		9,099,873	787,248
	Fiscal Year Pension		8,285,240	763,328
	Medicare LOB%		1.786%	96.425%
	Allowable Pension Cost	<u>\$884,013</u>	<u>\$147,974</u>	<u>\$736,039</u>

MINNESOTA BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment
1995	Contribution(s)	\$12,507,836	\$11,731,376	\$776,460
7.50%	Discount for Interest	(669,576)	(628,010)	(41,566)
1/1/95	Pres Val Contributions	11,838,260	11,103,366	734,894
1/1/95	Prepayment Credit	342,270	318,641	23,629
1/1/95	Pres Value of Funding	12,180,530	11,422,007	758,523
1/1/95	CAS Pension Cost	10,987,472	10,228,949	758,523
1/1/95	CAS Funding Target	10,987,472	10,228,949	758,523
1/1/95	% Funded		100.00%	100.00%
1/1/95	Funded Pension Cost		10,228,949	758,523
	Allowable Interest		526,485	39,041
	Allocable Pension Cost		10,755,434	797,564
	Fiscal Year Pension		8,123,838	794,985
	Medicare LOB%		1.229%	98.133%
	Allowable Pension Cost	<u>\$879,985</u>	<u>\$99,842</u>	<u>\$780,143</u>
1996	Contribution(s)	\$13,125,337	\$12,602,907	\$522,430
7.50%	Discount for Interest	(612,984)	(588,585)	(24,399)
1/1/96	Pres Val Contributions	12,512,353	12,014,322	498,031
1/1/96	Prepayment Credit	1,282,537	1,225,204	57,333
1/1/96	Pres Value of Funding	13,794,890	13,239,526	555,364
1/1/96	CAS Pension Cost	12,423,565	11,868,200	555,365
1/1/96	CAS Funding Target	12,423,565	11,868,200	555,365
1/1/96	% Funded		100.00%	100.00%
1/1/96	Funded Pension Cost		11,868,200	555,364
	Allowable Interest		521,403	24,399
	Allocable Pension Cost		12,389,603	579,763
	Fiscal Year Pension		11,981,061	634,213
	Medicare LOB%		0.158%	97.313%
	Allowable Pension Cost	<u>\$636,102</u>	<u>\$18,930</u>	<u>\$617,172</u>

MINNESOTA BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment
1997	Contribution(s)	\$17,049,892	\$16,552,168	\$497,724
7.00%	Discount for Interest	(815,033)	(791,240)	(23,793)
1/1/97	Pres Val Contributions	16,234,859	15,760,928	473,931
1/1/97	Prepayment Credit	1,474,175	1,427,378	46,797
1/1/97	Pres Value of Funding	17,709,034	17,188,306	520,728
1/1/97	CAS Pension Cost	16,403,621	15,882,892	520,729
1/1/97	CAS Funding Target	16,403,621	15,882,892	520,729
1/1/97	% Funded		100.00%	100.00%
1/1/97	Funded Pension Cost		15,882,892	520,728
	Allowable Interest		716,753	23,499
	Allocable Pension Cost		16,599,645	544,227
	Fiscal Year Pension		15,547,135	553,111
	Medicare LOB%		0.324%	87.571%
	Allowable Pension Cost	\$534,738	\$50,373	\$484,365
1998	Contribution(s)	\$14,032,188	\$13,576,443	\$455,745
7.00%	Discount for Interest	(531,977)	(514,699)	(17,278)
1/1/98	Pres Val Contributions	13,500,211	13,061,744	438,467
1/1/98	Prepayment Credit	1,396,793	1,351,213	45,580
1/1/98	Pres Value of Funding	14,897,004	14,412,957	484,047
1/1/98	CAS Pension Cost	14,833,478	14,349,431	484,047
1/1/98	CAS Funding Target	14,833,478	14,349,431	484,047
1/1/98	% Funded		100.00%	100.00%
1/1/98	Funded Pension Cost		14,349,431	484,047
	Allowable Interest		512,196	17,278
	Allocable Pension Cost		14,861,627	501,325
	Fiscal Year Pension		15,296,132	512,051
	Medicare LOB%		0.000%	91.464%
	Allowable Pension Cost	\$468,342	\$0	\$468,342

MINNESOTA BLUE CROSS AND BLUE SHIELD

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1987 THROUGH 1999

Date	Description	Total Company	Other Segments	Medicare Segment
1999	Contribution(s)	\$8,452,922	\$8,452,922	\$0
7.00%	Discount for Interest	(372,331)	(372,331)	0
1/1/99	Pres Val Contributions	8,080,591	8,080,591	0
1/1/99	Prepayment Credit	67,972	67,972	0
1/1/99	Pres Value of Funding	8,148,563	8,148,563	0
1/1/99	CAS Pension Cost	15,179,107	15,179,107	0
1/1/99	CAS Funding Target	15,179,107	15,179,107	0
1/1/99	% Funded		53.68%	0.00%
1/1/99	Funded Pension Cost		8,148,563	0
	Allowable Interest		372,331	0
	Allocable Pension Cost		8,520,894	0
	Fiscal Year Pension		10,106,077	125,331
	Medicare LOB%		0.162%	91.771%
	Allowable Pension Cost	\$131,390	\$16,372	\$115,018

FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from IRS Form 5500 Reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of the year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rate, and the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ A prepayment credit represents the premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A prepayment credit may be carried forward, with interest, to fund future CAS pension costs.

MINNESOTA BLUE CROSS AND BLUE SHIELD**STATEMENT OF ALLOWABLE CAS PENSION COSTS****FOR FISCAL YEARS 1987 THROUGH 1999**

- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provides the basis to compute the allowable pension cost that can be charged to Medicare.
- 7/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(I).
- 8/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purposes of illustration, the percentage of funding has been rounded to four decimals.
- 9/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 10/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of the quarter.
- 11/ The allocable CAS pension cost is the amount of pension cost that may be allocated for contract cost purposes.
- 12/ We converted the plan year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs as one-fourth (1/4) of the prior year's costs plus three-fourths (3/4) of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's direct pension costs plus pension costs attributable to indirect Medicare operations.
- 13/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages from documents provided by Minnesota.
- 14/ We computed the allowable Medicare pension cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.

BlueCross BlueShield
of Minnesota

Appendix B
Page 1 of 1



February 14, 2003

Mr. James P. Aasmundstad
Regional Inspector General for Audit Services
Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

P.O. Box 64560

St. Paul, MN

55164-0560

651.662.8000

1.800.382.2000

www.bluecrossmn.com

Re: CIN: A-07-02-03015

Dear Mr. Aasmundstad,

I am writing in reference to the draft report titled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross Blue Shield of Minnesota*. The draft report was dated December 19, 2002.

The single recommendation in the report was that Blue Cross Blue Shield of Minnesota revise its FACP's for fiscal years 1987 – 1999 to eliminate unallowable premiums costs of \$550,083.

We have reviewed your report and we accept the recommendation. We understand that any financial settlement will not take place until all reviews related to this topic have been completed.

Please contact me at 651-662-1668 if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'T. A. Schultz'.

Timothy A. Schultz
Vice President of Finance

cc: Keith Lindstam BCBSMN
Bruce Thoresen BCBSMN

ACKNOWLEDGMENTS

AUDIT REPORT NUMBER: A-07-02-03015
BLUE CROSS BLUE SHIELD OF MINNESOTA

This report was prepared under the direction of James P. Aasmundstad, Regional Inspector General for Audit Services. Other principal Office of Audit Services staff who contributed include:

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